

TRANSPORTATION FINANCE TASK FORCE

MINUTES for March 30, 2006

The following minutes are a summary of the Transportation Finance Task Force (TFTF) meeting. Audio cassette tapes of the actual meeting are available for listening at SCAG's office.

1.0 **Call to Order and Introductions**

Hon. Toni Young, City of Port Hueneme, called the meeting to order. Introductions were made.

2.0 **Public Comment Period**

There were no comments.

3.0 **Staff Report**

3.1 **Overview of Task Force Objective: Staff Consultant Team Introductions**

Mr. Rich Macias, SCAG, provided an introductory overview and highlighted the TFTF's mission. Mr. Macias indicated that for the upcoming Regional Transportation Plan (RTP), development of a Financial Plan will be one of the most critical components. Mr. Macias also stated that identifying resources/funding needed for the RTP will not be an easy task given current funding realities at the state and federal levels. He further stated that the TFTF will not be able to solely rely on public funding sources for transportation. More specifically, the TFTF will need to intensely scrutinize and assess the feasibility of various types of Public Private Partnerships (PPPs) as gap funding strategies. Actions and discussions occurring at TFTF meetings will ultimately be shared with other task forces, committees, and SCAG's Regional Council. Therefore, the role of the TFTF will be to advise SCAG's Transportation and Communications Committee and SCAG's Regional Council as to how the region can best finance the RTP. Mr. Macias concluded his comments by introducing the RTP Financial Plan project team.

3.2 **Review of the 2004 RTP Financial Plan**

Ms. Annie Nam, SCAG, provided a background overview of the 2004 RTP Financial Plan. Her presentation included a brief discussion of available baseline revenues¹ (\$120 billion) versus committed funds (\$115 billion), and the fact that approximately 4% of funds identified in the 2004 RTP would be available for new projects.

Mr. Martin Wachs, Rand Corporation, inquired whether the baseline revenue forecast was only for capital projects. Ms. Nam responded that the baseline forecast included both capital projects as well as operations and maintenance.

Mr. Mike Uyeno, LA DOT, inquired whether Prop. 42 funds were assumed in the baseline. Ms. Nam replied in the affirmative.

Mr. Dan Beal, Automobile Club of Southern California, inquired whether or not county sales-tax renewals were included in the baseline. Ms. Nam indicated that they were not included in the baseline unless they were passed by voter measures. She also noted that because extension(s) of local transportation sales taxes were not assumed, the forecast shows a dramatic drop in transportation revenues around 2010 through 2015. She also argued that part of this drop in baseline revenues was the result of staff's assumption of

¹ Baseline Revenues refer to existing local, state, and federal taxes existing under current law forecasted out to 2030.



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significant penetration of alternative fuel vehicles. Ms. Nam also indicated that the TFTF would need to reassess the ramp-up period and the diversion percentage of alternative fueled vehicles to determine if these assumptions are still plausible.

Ms. Nam also stated that according to the 2004 RTP Financial Plan, there is a \$93 billion funding gap between projected baseline revenues and identified needs. As a result of this, the TFTF and the Regional Council developed the following policy objectives:

- Protection of Prop. 42;
- Support for local transportation sales taxes;
- Adjustment of the state gasoline tax, or imposition of a regional fee;
- Review alternative fuel vehicle revenue collection methods;
- Initiate Development Mitigation Fee Programs; and
- Pursue PPP initiatives for selected revenue generating projects.

Ms. Nam also provided an overview of the 2004 RTP Financial Plan's overall Regional Checkbook—highlighting revenue sources and uses. She placed particular emphasis upon the fact that the great majority of transportation funds in the SCAG region are derived from local sources. She also indicated that of the \$213 billion identified in the 2004 RTP, approximately 50% of revenues were to be dedicated to transit, as well as operations and maintenance of the existing system. This left the region with a diminished ability to fund capacity enhancing projects. Thus, one of the primary roles of the TFTF will be to refine and enhance the 2004 RTP Financial Plan's Gap Funding strategies. Ms. Nam closed her presentation by stating that the TFTF would have to analyze/incorporate and address the following financial and policy factors which have developed/changed and/or worsened since the 2004 RTP Financial Plan was developed:

- Continuing state budget deficits;
- Instability of Prop. 42;
- Tribal Gaming legal challenges;
- SAFETEA-LU funding estimates need to be incorporated;
- Dwindling resources for the STIP and funding reliability concerns;
- The long-term viability of the Federal Highway Trust Fund;
- Volatility of project cost;
- Local ballot initiatives (i.e. Measure M)
- Extension of the RTP horizon year to 2035; and
- Previous RTP gap funding strategies need to be reassessed and refined.

4.0 **Action Items**

4.1 Proposed Workplan and Schedule for the (2007/2008) RTP Financial Plan Update

Chris Williges, System Metrics Group, provided an overview of the consultant project team, the proposed work plan, and highlighted critical issues as they relate to the 2007/2008 RTP Financial Plan. He stated that the consulting team would be divided into four sub-teams. The first sub-team will oversee development of the baseline financial model. The second team headed by Craig Hoshijima of Public Financial Management, will develop Innovative Financing strategies and funding scenarios for the baseline. Mike Fisher of Cambridge Systematics will provide input on Innovative Financing strategies



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related to Goods Movement, and Dr. Brian Taylor of UCLA will research various policy issues as they relate to the overall RTP Financial Plan.

Mr. Williges also described the various components which will be incorporated into the RTP Financial Plan. He indicated that the process will begin with the development and analysis of the revenue forecast model. Once the County Transportation Commissions (CTCs) have provided their project submittals, the cost model will be developed. He also indicated that while developing these various components of the financial forecast, the project team will also be investigating alternative funding strategies and conducting gap analyses.

Mr. Martin Wachs, inquired whether the CTCs would be placing financial limitations upon their project lists before they are submitted to SCAG. Ms. Nam responded by indicating that this would ultimately depend on the project, and where it is in the overall planning process. Mr. Williges followed up by indicating that in the project lists that the CTCs propose, there will be some financial modeling assumptions about what the future will hold. He went on to state that these different assumptions could potentially be a challenge in developing a baseline forecast, given that all CTCs may not necessarily incorporate the same assumptions or provide the same level of detail in regard to their financial estimates. However, Mr. Williges also stated that the project team would be analyzing and reassessing the "regional checkbook" so that the RTP's Financial Plan will ultimately balance, be defensible to our federal partner agencies, and at the same time, be consistent with what SCAG's constituent agencies have developed.

Continuing with his presentation, Mr. Williges stated the project team expects the final Financial Plan to be complete by the summer of FY 07. To implement this schedule, Mr. Williges stated that several critical tasks will need to be completed within the next few months. These activities will include developing the revenue side of the Financial Plan, reviewing current revenue sources and key socio-economic drivers of those revenue sources. He also indicated that by the end of June, the project team envisions being able to propose a structure for the Financial Plan's revenue/cost model.

Robert Rodine, The Polaris Group, inquired whether the revenue model would be flexible enough to adapt to policy changes being considered by the TFTF. Mr. Williges stated that the revenue model will be flexible enough to adapt to various policy assumptions. He also indicated that the project team would be developing two sets of forecasts: the baseline revenue forecast (which assumes that no new policies would be adopted beyond existing conditions) and a second forecast which would take into account the various alternative funding/financing strategies.

Mr. Williges further stated that the financial model would consist of three components: 1) A forecast of economic drivers including population, gasoline consumption, and employment; 2) A forecast by county of various revenue sources; and 3) Parameters that would allow the project team to manipulate the model by assuming various policy variables.

Mr. Williges also described some of the challenges the project team anticipates in developing the model. Some of these challenges include the need to develop a baseline and intermediate model in order to reflect RTIP projects which will continue to progress beyond the initial baseline period. He also indicated that there is going to be some degree of difficulty in developing the cost model as SCAG is required to identify full costs



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including cost escalations for individual projects.

Mr. Williges went on to highlight a number of significant policy issues the project team will be researching and looking for direction on in the coming months: assumptions about the penetration rate of alternative fueled vehicles, the volatility in gasoline prices, projected oil shortages, impacts on revenues due to the aging population, and sharp increases in construction costs.

Hon. Toni Young, indicated that she would like the project team to investigate efficiencies that have emerged as demand for hybrid vehicles has increased. She also indicated that she would like the project team to investigate how alternative fueled vehicles are going to be taxed.

Martin Wachs inquired whether the project team is going to look at new sources of revenues and new approaches to collecting revenues (i.e. regional motor fuel taxes and vehicle mile fees). Mr. Williges stated that the project team would be analyzing both of these issues. Mr. Miles Mitchell, LA DOT, indicated that he would like to see the TFTF and the project team investigate strategies that other MPOs have been employing to deal with the same issues that are confronting SCAG.

Chris Williges responded by indicating that Craig Hoshijima and his group will be analyzing Innovative Financing strategies which have been applied around the nation. Jacki Bacharach, South Bay Cities Council of Governments, stated that she would also like to have the project team investigate Innovative Financing strategies from around the country, in order to learn what they have done, while also working to potentially develop a coalition. Annie Nam indicated that the project team would do this by investigating Innovative Financing strategies both domestically and internationally.

The TFTF approved the Work Plan and Schedule.

5.0 **Discussion Items**

- 5.1 Mr. Craig Hoshijima, Public Financial Management, provided an overview of the various types of Public Private Partnerships (PPPs) that are currently being utilized throughout the country. He primarily focused on the Design-Build-Finance-Operate (DBFO) PPP method to highlight the emerging trend of providing highway concessions to the private sector. Mr. Hoshijima discussed three examples of highway concessions (Massachusetts Highways State Route 3, SR-91 Express Lanes, and the SR-125 Toll Road). He also provided an overview of how the financing structure worked for each of these projects. Mr. Hoshijima discussed various other highway PPP agreements. These projects included the Chicago Skyway's concession to Cintra and Macquarie infrastructure groups and the Oregon Department of Transportation's recent request for proposals for a "long-term strategic development partner." Mr. Martin Wachs, wanted it noted that the Chicago Skyway concession would not be a model that the TFTF should further investigate, because revenues from this concession are being provided to non-transportation related needs.

Mr. Hoshijima continued with his presentation by stating that recent highway concessions coupled with SAFETEA-LU's new Private Activity Bond provisions have made it easier for the private sector to invest in highway infrastructure. He also indicated that the private



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sector is increasingly interested in becoming involved with transportation infrastructure finance and management. Mr. Hoshijima stated that southern California with its large traffic flows and relatively fixed supply of transportation infrastructure has intense demand and significant revenue potential—making southern California one of the premiere areas for investing in highway concessions. Mr. Hoshijima also stated that the private sector with its vast resources is not as constrained as the public sector when it comes to generating funding in order to complete transportation projects. Thus concession agreements and PPPs may present southern California with a unique opportunity to expand its transportation infrastructure. However, he did caution that before wide-spread use of PPPs could be applied in southern California, several public policy hurdles would need to be overcome. He indicated that the State and the region would need to determine if they are comfortable with relinquishing public control over tolls and transportation facilities through concession/franchise agreements.

Members of the TFTF voiced general concerns in regard to the use of franchise agreements and non-compete clauses. Also, Mr. Martin Wachs inquired whether or not the project team would be analyzing PPPs applicability to Goods Movement and transit. Mr. Hoshijima indicated that the project team would be analyzing PPPs to determine their applicability to Goods Movement activities. However, Mr. Hoshijima and various members of the TFTF indicated that applying PPPs to public transit may potentially be unfeasible, given that public transit is heavily subsidized by the public sector, and the economics of PPPs do not work out as well for public transit as they do for highways.

6.0 **Standing Items:**

6.1 **State Legislative Update**

Jeff Dunn, SCAG, described staff's recent efforts in advocating for SCAG's transportation finance priorities. Mr. Dunn indicated that staff is working with its representatives in Sacramento to have an infrastructure bond measure placed on the November ballot. Mr. Dunn also indicated that staff has been pushing hard for protection of Prop. 42 funds. He indicated that there are currently three constitutional amendments which are being discussed, and staff is intensely monitoring movement on each of these proposals. Mr. Dunn also indicated that staff has been lobbying elected officials to modify the Goods Movement sections of the various infrastructure bond proposals so that allocations are based on volume of freight and system performance. In addition to these efforts, staff also has been working with various public and private entities including USC's Keston Institute, the California Business Roundtable, and the California Foundation for the Environment and Economy, to put together a series of informational workshops for the State Legislature. The workshops focused on the benefits of PPPs/design build contracting. Mr. Dunn closed by stating that staff will be working to put together more of these workshops in the future.

6.2 **Federal Legislative Update**

Sarah Adams, SCAG, provided an overview of the FTA's new PPP Pilot Program. She indicated that the FTA is currently soliciting comments on this program in regard to design-build, private sector investment incentives, funding methods to reach a Record of Decision, the New Starts application process and NEPA, the balance between public and private sector risk, and tax-exempt financing for transit on new capital projects. Ms. Adams also stated that SCAG is working with the CTCs and Metrolink to formulate



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comments on these topic areas. Ms. Adams concluded her remarks by stating that staff would welcome any suggestions that members of the TFTF or their agencies would be willing to provide.

7.0 **Next Meeting Date & Adjournment**

The meeting was adjourned, and it was determined that SCAG staff would circulate an email indicating when the next meeting would be held.



Attendance

Elected Representatives Present:

Hon. Pam O'Connor, City of Santa Monica
Hon. Toni Young, City of Port Hueneme
Hon. Lee Ann Garcia, City of Grand Terrace (Video Conference)

Elected Representatives Absent:

Hon. Arthur Brown, City of Buena Park
Hon. Richard Dixon, City of Lake Forest
Hon. Ron Loveridge, City of Riverside
Hon. Robin Lowe, City of Hemet
Hon. Bonnie Lowenthal, City of Long Beach
Hon. Judy Mikels, Ventura County
Hon. Gary Ovitt, San Bernardino County
Hon. Jeff Stone, Riverside County
Hon. Paul Talbot, City of Alhambra

Teleconference/Video Conference:

Craig Fajnor, RTA
Ken Lobeck, RCTC
Jennifer Bergner, OCTA
Rosa Lopez, IVAG
Paul Fagan, Caltrans District 8

Others Present:

Jacki Bacharach, South Bay Cities Council of Governments
Dan Beal, Automobile Club of Southern California
RB Blanza, Caltrans District 8
Joanna Capelle, SCRRA
Herman Cheng, METRO
TyAnn DeChambeau, FHWA
Craig Hoshijima, Public Financial Management
Aileen Kennedy, Caltrans District 8
Marianne Kim, Automobile Club of Southern California
Jack Joseph, Gateway Cities Council of Governments
Miles Mitchell, LA DOT
Fred Pearson, Parsons Brinckerhoff Consulting
Robert Rodine, The Polaris Group
Mary Travis, VCTC
Mike Uyeno, LA DOT
Kathleen Wanda, Caltrans District 7
Diana Wastson, Caltrans District 7
Martin Wachs, The Rand Corporation
Chris Williges, System Metrics Group
Andrea Zureick, SANBAG

SCAG Staff Present:

Joseph Alcock
Naresh Amatya
Bob Huddy
Rich Macias
Jonathan Nadler
Annie Nam